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THIS OLD HOUSE: *UNDER THE FLOORBOARDS WITH THE CALIFORNIA STATE BUDGET*

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Again, California faces a fiscal crisis. The *Los Angeles Times* blames the current state budget "shortfall" on policy makers who presumed that a decade of fiscal expansion would continue, that state coffers would overflow, and that they could with impunity fund every new program from school reform to state park improvements. When the economy soured, of course, the bill came due. A man of ruthless energy, the Governor dodged the fiscal bullet, winning reelection with surprising ease. These words, describing Governor Hiram Johnson in 1914, seem equally relevant to contemporary California.¹

In this chapter, I argue that there is more to California's recurrent political crises than this evening's particular constellation of political stars. The problem stems from a state political history and constitutional development whose contradictions have never been fully resolved. Revealed in California's recurring budgetary crises are the state's conflicting Jacksonian, corporate, and Progressive political traditions.

Though former President Andrew Jackson died a year before American troops conquered Mexican California, Jackson's commitment to limited government and low taxes deeply influenced the immigrant Democrats who dominated California's 1849 constitutional convention. Jacksonian opposition to corporate power influenced California's late 19th century agrarian populists, who represented farmers beset by debt, corporate dependence, and falling grain prices. While populists never achieved in California the political power they exercised in the Plains states, they did build broad support for direct democracy and, ultimately, for the initiative.

The chief target of Jacksonian and Populist rage was the Southern Pacific Railroad (SP). Founded at the beginning of the Civil War by Collis Huntington and other San Francisco businessmen, the railroad heralded the transformation of California's economy from its early reliance on small-time miners and farmers towards much greater corporate power. The Southern Pacific's rates, labor policies, and land grants angered California activists enough to ignite a militant anti-railroad movement that led to a second constitutional convention (1878-79), its provisions aimed at constraining railroad power. That new constitution alarmed Southern Pacific executives, who, ironically, involved themselves more deeply in state politics, particularly in the Republican Party.

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Between 1890 and 1910, the state's economy diversified into the citrus, petrochemicals, financial services, real estate, and manufacturing sectors. Huntington's often times clumsy efforts to compel continued loyalty from the state's new business interests and urban middle class provoked a fierce insurgency within the Republican ranks. Describing themselves as "Progressives," the insurgents claimed to speak for "The People" against "The Special Interests," challenging both Jacksonian traditions of small government and Huntington-style power brokering. Yet Progressives were unable fully to uproot either tradition. Progressive reforms were grafted onto the already in existence system rather than replacing it.

And so California's government may best be imagined as an aged and much-remodeled building. From the street, it's an eccentric pastiche of styles, combining glass-and-chrome Progressivism with elements suggesting both the sod huts of Plains populists and the industrial design favored by certain American railroad corporations. Below ground, the foundation is a wood-and-brick affair of Jacksonian provenance, sagging dangerously beneath loads it was never designed to carry.

Demolition is unlikely. The tenants seem satisfied – and have, at any event, invested considerable political capital in the building's upkeep. In this chapter, I explore previous redesign. At the end, I endorse suggestions made elsewhere for modest retrofitting which, while adding to the structure's patchwork appearance, may at least stop the doors from jamming, plug up the leaky pipes, and control the dry rot. It's worth remembering, though, that such minor repairs, though necessary, do not solve the basic problem.

Foundation: Jacksonian California

California's Constitution, now quite long and windy, is at its core an angry Jacksonian manifesto. It was originally intended to empower local electorates and discourage Sacramento cabals. But it has become the motor of a machine far more powerful than any which ever disturbed Andrew Jackson's small-government slumber.

The Democrats who wrote California's 1849 Constitution and dominated state politics before the Civil War have not gotten very good press. Hubert Bancroft, gentleman historian of California's 19th century, sputtered that

these lawyers, judges, and fire-eating politicians were the scum of the state! They were thieves, gamblers, murderers, some of them living on the proceeds of harlotry, and all of them having at heart the same consideration for the people they had [for] the occupants of the state prison, where [they] ought to have been.²

Bancroft was not entirely wrong, yet still unjust. Who were those California Democrats?

As organized during Andrew Jackson's presidency, the Democratic Party dedicated itself to protecting states from overweening federal power and to break up propertied and elitist cabals. Jacksonian Democrats believed that such were intent on

subjecting small independent farmers and shopkeepers to their financial interests. Originally, Democrats had feared federal more than state government, but with the Panic of 1837, that view changed.

States which had invested heavily in the canal-and-banking financial bubble of the 1830s, found themselves deeply vulnerable when the bubble burst. Some states repudiated their debts, leaving European investors leery of American state securities for years to come. Many Democrats concluded that state legislators needed constraints placed on them as much as did the “general” (federal) government.

The politicians who drafted California’s 1849 constitution were, by and large, Democrats who immigrated to the state during the early months of the Gold Rush. They had brought with them the deep distrust of strong government so deeply ingrained by the collapse of state finance during the early 1840s. And so California’s first constitution prohibited the Legislature from investing state funds or extending state credit to private enterprises.

Every state officer, not just the Governor, was to be directly elected, the Controller, Secretary of State, State Surveyor, Clerk of the Supreme Court, and the various county tax assessors. The constitution limited state debt to a mere \$3,000. Though the California constitution did not impose term limits, politicians obligingly rotated themselves out of office, rarely serving more than a year in the Assembly or two years in the Senate.

Having promised a limited government, 1850s Democrats found themselves in an impossible bind. The new state’s Gold Rush government lacked roads, schools, and law enforcement. For the state’s first few years, Democrats persuaded themselves that miners (particularly immigrants) would foot the bill. Contemptuous of state government, the miners did not cooperate.

With revenues lagging, Democrats resorted to a property tax, only to find that locally elected tax-assessors routinely under-assessed property. Democrats tried leasing state institutions to private contractors (notably the prison at San Quentin) with disastrous results. In the end, the state simply borrowed, well beyond the official \$3,000 limit.

In 1857, the State Supreme Court declared the state’s debt null and void. The decision shocked California’s business class into action. A Board of Examiners was created to check state expenditures. The state began disciplining errant county tax assessors. Gradually, these regulations were refined, so that by the late 1860s, the state could offer a limited menu of government services.³

Yet Jacksonianism remained central to the state’s political culture. The depression years of the 1870s led to demands for a new constitution, one that would impose even stricter constraints on errant legislators. Indeed, the 1879 California constitution was one of “the most extreme Northern reactions” to the brief growth in government power of the Civil War period. Of the twenty-nine limits on government

incorporated into late 19th century state constitutions, California adopted twenty, more than any state save Pennsylvania. This version is the constitution which, though much amended, remains in force today.⁴

Fiscal Institutions of the Late 19th Century

Under the 19th century system, no government official, in California or in any other state, published a “budget” in the modern sense of that word. Students unfamiliar with American fiscal history are routinely surprised to discover that until the early 20th century, the very word “budget” referred to nothing more than a packet of official papers. Instead, legislative committees drafted spending bills of all descriptions. Meanwhile, the state's equivalent of the U.S. House Ways and Means Committee proposed a tax rate – usually with little idea how much revenue would actually be necessary.

Generally, state constitutions of that era required an official (in California it was the State Controller) to prepare “estimates” of expenditures expected in the upcoming fiscal biennium. Drafted solely to discharge the officer's legal responsibilities, these documents were wildly inaccurate and routinely ignored. When things went radically wrong—when expenditures far exceeded income—the Legislature temporarily hiked taxes, cut expenditures, and then, just before the next election, reduced taxation.

Despite these deficiencies, most politically active Californians were content with the system; and why not? The Jacksonian constitutional order delivered low tax rates and limited government services to interest groups suspicious of government professionalism and administrative skill. Schemes for expensive roads, irrigation works or college expansion rarely survived the Legislature. Each county's legislative representatives objected to any appropriation not directly benefiting his own constituents (and his own party's county central committee).

The legacy of Jacksonian distrust of government and politicians is its tendency to create jurisdictions responsible to the smallest possible group of voters. Over time, this multiplication of jurisdictions and officials has diffused responsibility and undermined accountability. As James Marone has pointed out, our “democratic wish” has perverse results: the more Jacksonian we become, the less accountable we find our institutions. In desperation, we turn again to Jacksonian solutions. We diagnose the California state government with hemophilia, and so we prescribe a regimen of regular bleeding.⁵

Power Lines: Rule 21 and Political Brokerage

Although based on limited government, the Jacksonian system was vulnerable to any interest group that could organize a truly statewide coalition to increase spending. The first Californians to do so were schoolteachers. Organized by Superintendent of Education John Swett in the 1860s, teachers built a political coalition among families with school-age children—who could be found in all of the state's legislative districts. Between 1860 and 1870, education spending increased 310%. Education quintupled its share of state spending and drove per capita spending up by over 20%.

Coming at the beginning of the depression of 1873-1877, the timing could not have been worse from the viewpoint of fiscal soundness. In some desperation, the Legislature created the Board of Equalization to standardize county property assessments. A lower tax rate and higher assessments increased revenues enough to pay teacher salaries, though they contributed to considerable anger at state government. But as the economy recovered, the crisis passed.⁶

The state fiscal system adjusted to increased educational spending, but did not survive its next challenge. In 1888, Democrats recaptured the Assembly after four years out of power. Eager to meet pent-up demands for party patronage, Democrats cast discipline aside and raided the state treasury. The consequent tax hike enraged property owners, who, in 1890, returned Republicans to power.

When Assembly Republicans met in January 1891, the new Rules Committee promptly amended Assembly Rule 21, which described the powers of the Assembly Ways and Means Committee. The old Rule 21 had required that Ways and Means report on state expenditures without granting the committee any power to control them. Under the revised rule, Ways and Means had to approve all appropriations. The Committee's chair instantly became the most powerful man in California state government.

One beneficiary of Rule 21's revision was the Southern Pacific Railroad. Over the previous twenty years, its president Collis Huntington had defended the corporation's interests against attacks from striking San Francisco railroad workers, Central Valley farmers, and the landless poor. He had been attacked for tax evasion, predatory pricing, absentee control of unused lands, and discriminatory shipping rates. To protect his interests, Huntington had bankrolled both Democrats and Republicans, although he found the latter more reliable allies. Huntington did not relish seeing his allies abruptly lose their majorities because of their lack of fiscal discipline.

By empowering the Ways and Means Committee, Huntington and the Republican Party leadership created a mechanism to control spending and discipline wayward legislators. Rather than hand out favors to each individual, his Sacramento allies could broker resources among competing factions. They could also ensure that the total cost of party patronage did not force the state tax rate intolerably higher. The system worked. Over the next twenty years, it gave the Southern Pacific a base from which to extend its power through the Republican Party, from the state central committee down through the various county committees.

This system of centralized fiscal decision-making, so contrary to the constitution's Jacksonian spirit, ultimately ran afoul of the state's economic transformation. In the 1890s and early 1900s, oil, produce, citrus, retail, banking, and insurance all rapidly grew in importance. As a result, the Republican Party had to satisfy a growing number of factions, each of which resented the Southern Pacific's role in brokering money and power.

At first, the SP tried to co-opt these new constituencies. In 1902, Republican leaders acceded in the gubernatorial nomination of reformer George C. Pardee. Like the Southern Pacific, Pardee wanted to centralize fiscal decision-making and state administration. His staff worked up a “Board of Control” proposal designed to subordinate all state finance to Sacramento planning and control. But Pardee was a political moralist, unwilling to cooperate with the SP on patronage appointments. Huntington had the Party dump him before he could be elected to a second term.

Pardee’s ouster combined with political scandal in San Francisco to galvanize Republican business factions against the “Machine.” Organized as the Lincoln-Roosevelt League, this coalition of left-leaning Republican Progressives and conservative business and agricultural interests believed that by restructuring state administration and finance, they could force the SP from political power. Both were delighted when anti-SP San Francisco attorney Hiram Johnson won the 1910 gubernatorial election and proceeded to make major electoral and social reforms.

The Southern Pacific’s two decades of Republican Party control attests to the vulnerability of the state’s political parties to capture. With the support of a powerful leadership, it is possible to control a budget process. And with that process in hand—if one is careful—it is possible to control state politics.

A Failed Makeover: Hiram Johnson and the Centralization of Political Decision-Making

Governor (and later U.S. Senator) Hiram Johnson remains one of the most important figures in California’s political history. He is associated with a raft of Progressive legislative legacies adopted during his period as governor. These include adoption of electoral reforms (initiatives, referendums, recalls) and social reforms (women’s suffrage, worker compensation insurance, worker health and safety regulation, kindergartens and vocational schools, immigrant housing and the like). But Johnson’s administrative and fiscal reforms are not as well known. They deserve greater attention.

In January 1911, Johnson’s legislative allies revived the Board of Control idea, sending legislation to the Governor soon after. In its first year, Johnson’s Board took a populist tack: investigate government officials, expose their incompetence or corruption, and get rid of them. Meanwhile, however, the Board began building a new system of state finance and administration, one that would concentrate decision-making in the governor’s office. In 1913, Johnson became one of the first governors in the U.S. to send the Legislature a formal budget proposal.

Johnson considered budget planning but a first step in subordinating the entire state apparatus to rational and apolitical administration, an idea central to Progressive reformers. However, the Board of Control ran into trouble almost instantly. The University of California’s Board of Regents launched a not-very-covert campaign to keep the Governor’s office out of university affairs. State officials also caviled. Secretary of State Frank Jordan railed at the Board’s “pinheads” for their “unwarranted” rejection of an \$18 Addressograph he wanted for his office.⁷

Such resistance made Johnson more determined to have his way. In 1912, Johnson supported a “short ballot” initiative that would have abolished all elective executive offices except that of the Governor himself. In 1913, he proposed that a central board of institutions replace all the locally based boards of trustees who ran the states prisons, asylums, and other institutions. In 1915, Johnson advocated a scheme that would have subordinated local finance to direct state supervision. None of these ideas became law, and Johnson’s Progressive rationalism had to co-exist with the Jacksonianism of a previous age.⁸

Meanwhile, state expenses dramatically increased. Johnson had two budgetary priorities: highways and schools. While bonded debt financed the initial construction, maintenance and personnel costs had to be met from current revenues. Most of the fiscal burden was borne by the counties. In 1901, the state had paid 56% of school costs; by 1919, state support was down to 28% of the total, with county governments and boards of education being hit for the rest.⁹

The conservative *L.A. Times* railed against Johnson’s “Saturnalia of Extravagance,” apoplectic that voters paid so little attention.¹⁰ Why the public apathy? Protecting Johnson was a 1910 tax referendum popularly known as Amendment 1. Before Amendment 1, state and local governments had both depended on property taxes, a fact that turned them into competitors for the same resources. The amendment had “separated sources,” giving counties total control over revenues generated by taxes on most property within the county line while reserving railroads, bank deposits, insurance policies, and other corporate property for state taxation. “Public utility” corporations had welcomed Amendment 1: state rates were lower than those of the counties and calculating tax liability for the state government was easier than doing the math for 58 counties.

Amendment 1 had originally won the endorsement of the Southern Pacific Railroad. It would have insulated the Railroad’s legislative allies from voters outraged that their taxes fed a state system of patronage. Yet ironically, it was Hiram Johnson and his anti-railroad Progressives who were protected from voter wrath. With Amendment 1 in place, the state could increase its expenditures without directly affecting residential, agricultural, and retail property owners. Voters certainly did resent their county tax bill. But Johnson’s political supporters disingenuously argued that state and local finance were two different things. Upon the thermals of fiscal illusion, the Governor’s popularity soared; in 1917 he flew right off to the U.S. Senate. His gubernatorial successors were not so universally loved.

Johnson, still revered in California history texts, did his best to rebuild the foundation of California finance and governance. He failed. And Johnson, the arch-centralizer, benefited more than any other politician in state history from the Jacksonian preference for autonomous local governments; Johnson foisted the costs of state policy upon the backs of the counties without taking the heat. That tactic may be his most enduring fiscal legacy.

Cracks in the Facade: Three Governors of the 1920s

In American political lore, the 1920s were a period of retrenchment, a golden age of budgetary conservatism. Look beyond Andrew W. Mellon's Treasury Department, however, and a different picture emerges. While federal spending declined slightly between 1922 and 1927, state and local spending increased more than 40%. Johnson's immediate successors in California, governors William Stephens, Friend Richardson, and C. C. Young, faced an irresolvable tension between expectations of fiscal restraint and growing public demands on government.¹¹

Johnson had appointed Stephens his Lieutenant Governor on the death of Stephens' predecessor. But Johnson grew to dislike his heir-apparent, and few Progressives felt the same kind of loyalty for Stephens that they did for Johnson himself. Unwilling to use his line-item veto to have his budgets passed, Stephens was unable to staunch off-budget appropriations. Stephens tried reorganization of state government (long a Progressive chestnut), but he found, as have other reorganizers, that while such shake-ups may improve efficiency, they don't deliver economy.

To make ends meet, Stephens' Board of Control cut proposed hikes in public school and state university funding. The University's Board of Regents and the state's teachers turned Progressivism's biggest gun against the state's Progressive governor: they put initiatives on the ballot. In 1920, the state's teachers secured passage of Proposition 16. Before Prop 16, the state faced a \$1 million deficit on a \$60 million budget. The initiative bloated the deficit to more than \$14 million. Bitterly, Board of Control member Marshall DeMotte attacked the "school machine" which, far from defending "childhood and posterity," served the "selfish interests of the teachers."¹²

Stephens now had no choice but to hike taxes. He shied away from restructuring the tax code, since this would lead to direct taxation and prove unpopular. Instead he endorsed a hefty corporate tax hike, the so-called King Bill. State corporate taxes had gradually increased in the 1910s; why should this be different? However, the state's corporations had anticipated Stephens' move, and had organized the California Taxpayers Association (CTA) to prevent it. Wisely, the CTA told county taxpayers that there was a relationship between their county bills and the state's budget. The CTA lost the battle by a one-vote margin in the State Senate. But Stephens lost more, going down in defeat in the 1922 Republican primary.

Succeeding Stephens was State Treasurer William Friend Richardson, a fiscal conservative aligned with Central Valley agricultural interests and small town banks. Convinced that Johnstonesque social programs were nothing less than creeping socialism, Richardson used his veto with enormous pleasure and with little political discretion. Within six months, he managed to alienate some of his own core constituencies, and was himself defeated by a 1926 primary challenger, Lieutenant Governor and veteran state senator C. C. Young.

Young, remembered (if at all) as a rather colorless good-government Progressive, proved the wiliest of the politicians between Hiram Johnson and Governor Earl Warren

(elected in 1942). Since Young held a veto and the power to draft the budget bill, he was in a position to take Collis Huntington's vacant position atop the Republican Party. Shortly after his 1926 election, Young and his staff met with every interest group and legislative committee chair. By the time the Legislature met, Young had already brokered his compromises, and won budget passage easily. Young's drift to the corporate right shocked the Republican Party's dwindling band of leftist Progressives. But it achieved Young's goals and stabilized the state's budget politics.

By 1929, the system was working well enough to allow Young to wax theoretical about long-term planning for infrastructure development. But the system depended for its success on a growing economy and tax base. Then came the Great Depression. The resulting crisis ended Young's political career, although it also opened the way to reform of the antiquated tax code, adding income and then sales taxes to the mix of state revenue sources.

The 1920s demonstrated the ability of organized interests to bend the initiative process to their own ends and let the state pay the price. (It is no accident that the first proposals for a tax-limitation initiative emerged about this time). That period also demonstrated the continued relevance of the Southern Pacific's tactic: using the budget to broker political access and power. Here, too, was a lesson not lost on Young's successors.

Tear Down the House or Make Repairs?

Two easy targets for those unhappy today with California state finance are Proposition 13 (passed in 1978) and "The Politicians." Proposition 13 is responsible for many ills, from the closure of county emergency rooms to the mania for maximizing sales tax revenues at the expense of every sensible goal of public policy. Even so, to blame Prop 13 for California's fiscal ills is to confuse the consequence with the cause. Prop 13 came along in the 1970s because, in the 1960s, county assessors hiked suburban assessments. At the same time, the legislature gave little thought to coordinating spending and expenditure growth. State and local governments each pretended that the borders between them had some kind of fiscal significance as perceived by voters.

There is something to be said for blaming political officials. The periodic dust-ups between governors and legislative leaders and between state and local officials are needlessly bilious. Nor should we doubt that campaign finance distorts budget priorities. Even so, personality clashes and corporate contributions have been around a long time. They loom in importance because the system rewards inter-jurisdictional clashes while encouraging the political brokerage that further empowers moneyed interests. California's budget woes are a consequence of the system's structure. If that is the case, can we change the structure?

During the mid-1990s, a sheaf of reform proposals hit Sacramento. Legislators largely ignored them then; yet recent events may make them viable now. All the proposed reforms of the 1990s would be familiar to Hiram Johnson and his Progressive supporters: performance-based budgeting, long-term fiscal planning (particularly for

capital expenditures), reduction of the supermajority required for budgetary passage, and diversion of boom-time surpluses into a reserve fund. To this list, one might add repeal of Proposition 13's more perverse provisions.¹³

These reforms would make fiscal crises less frequent, and that would certainly be a Good Thing. Yet they are not enough to avert such crises altogether -- particularly after the Legislature gets its hands on the reserve funds. They will not be enough to resolve the contradictions in a state political system that simultaneously embraces the following: Federalist assumptions about separation of powers, Jacksonian insistence on multiple levels of government competing for the same resources, and the Progressive pretense that the system, if staffed by competent managers, will somehow transcend the kind of politics California has inherited. But since we can't tear down the fiscal house completely, making incremental reforms would help.

Endnotes

- ¹ “State Spent Its Way Into Budget Crisis”, Los Angeles *Times*, October 29, 2002; “Saturnalia of Spending”, Los Angeles *Times*, Sunday, July 2, 1916
- ² Hubert H. Bancroft, *History of California*, vol. 23 in *The Works of Hubert Howe Bancroft* (San Francisco: The History Company, 1888), 700.
- ³ *Nogues v. Douglass et al.*, 7 Cal 65 (1857).
- ⁴ John W. Burgess, “The American Commonwealth: Changes in its Relation to the Nation” *Political Science Quarterly* I:1 (March 1886) 9-35; Morton Keller, *Affairs of State: Public Life in Late Nineteenth Century America* (Cambridge: Belknap Press of Harvard University Press, 1977), 113.
- ⁵ Marone, James, *The Democratic Wish: Popular Participation and the Limits of American Government* (New York: Basic Books, 1990).
- ⁶ Data derived from California State Controller, *Report* for biennium, 1850-1880 and from Warren S. Thompson, *Growth and Changes in California’s Population* (Los Angeles: The Haynes Foundation, 1955), tables I-1 and II-1.
- ⁷ Jordan addressograph: newspaper article, source unnamed, of February 12 (probably 1913) in Clyde Seavey scrapbooks, Bancroft Library, vol. 1.
- ⁸ Johnson also recommended, for instance, that the State centralize purchasing for all state agencies and institutions. *Pacific Outlook* 10:3 (January, 1911), 6; Johnson, “Address to the State Bar Association,” in *California Outlook* November 25, 1911, p. 11; Johnson, “Second Biennial Message,” *AJ* 41st Session, January 5, 1915, 34; David P. Barrows, “Reorganization of State Administration in California,” *California Law Review* III:2 (January 1915), 91-102.
- ⁹ Data from Will Wood, “Many Bills to Improve Rural Schools,” *Pacific Rural Press*, Feb. 19, 1921, 298.
- ¹⁰ Los Angeles *Times*, Sunday, July 2, 1916.
- ¹¹ Bureau of the Census, *Historical Statistics of the United States* (Washington, 1971), 1123-1124 and 1129-1134.
- ¹² John David Phillips, “The Politics of State School Support: California as a Case Study, 1919-1960”, Ph.D. dissertation, Stanford University, 1965, 176.
- ¹³ See, for example, the Little Hoover Commission, “Budget Reform: Putting Performance First,” Little Hoover Commission report no. 135, October, 1995 and California Citizens Budget Commission, “Reforming California’s Budget Process,” CCBC, 1995, and the California Constitution Revision Commission, “Final Report” 1996.